



The United States Agency for International Development

Central America in Crisis:

USAID Response and Strategic Approach

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Overview. Throughout the 1990s, Central America enjoyed relatively steady progress toward social development and economic growth. Democratically elected governments adopted increasingly open economic policies and encouraged trade. Although equity issues and disparities continued, progress was made in reducing poverty. Nonetheless, the region remains highly vulnerable to disasters, as evidenced by Hurricane Mitch in 1998 and the earthquakes in El Salvador in 2001. More recently, Central America has been hit by a new series of disastrous events, overlapping and exacerbating each other. The dramatic decline in international commodity prices (e.g., coffee, bananas, palm oil, and citrus) and the recent drought are leading to reduced employment, food insecurity in poor households, increased incidence of acute malnutrition in some countries, abandonment of farms, and increased migration out of rural areas, including illegal immigration into the United States.

Drought. Rainfall in 2001 was erratic and unevenly distributed throughout the region. Drought conditions through the first planting cycle (May-August 2001) resulted in losses in the corn and bean crops in El Salvador, Guatemala, Honduras, and Nicaragua, and led to transitory food insecurity. The second harvest (February-March 2002) was spotty, with wide variations in production. This aggravated an already difficult situation, since over 52 percent of the population - over 14 million people - are poor and chronically food insecure. Availability of seeds was a problem in some areas and may be again in the upcoming 2002 planting season, especially if El Niño returns, as indications strongly suggest. The drought, however, is a short-term phenomenon linked to the longer-term crisis in the rural economy as a result of its negative effects on household food security. In Guatemala, after poor crop harvests and the loss of employment in the coffee sector, many chronically malnourished children have fallen into acute malnutrition, despite specific food assistance programs that have targeted these populations since September 2001.

Falling Coffee Prices. A glut in the world coffee market has depressed prices dramatically. Coffee prices have declined by 75 percent in the last 18 months due largely to the oversupply created by new production from Southeast Asia. The loss in income for Central American farmers is on the order of \$1.5 billion this year alone. Falling prices at the farm gate (currently less than one-half of normal prices) mean that many farmers, including small-scale producers, cannot earn enough to

even cover their production costs. Called the "Coffee Hurricane," some estimate that it could take up to five years for prices to recover to previous levels. Many hundreds of thousands of seasonal jobs, and hundreds of thousands of permanent coffee farm jobs, are being lost. As a result, an increasing number of families dependent on the coffee sub-sector will face hunger in coming years.

Economic Instability. Central American countries are collectively, but differently, going through a sorting out of their financial sectors. Each country has its own set of problems. Few have well-regulated financial sectors despite many years of advice from the donor community and international financial institutions. The countries are heavily dependent on the coffee sector for rural employment, farm family income, and export earnings. The crises are reducing government revenues, further weakening national financial systems and contributing to overall social and economic instability. Crime statistics are on the rise. These challenges could significantly increase the potential for conflict in the region, undermine political processes, and greatly increase immigration to the United States. The problem is especially acute for newly elected governments seeking to establish new policies and development priorities.

USAID's Emergency Response. The U.S. Agency for International Development (USAID) has closely monitored weather conditions and crop production in Central American countries during the two-year dry spell that has affected crop yields and farming conditions of small and subsistence farmers. As drought conditions worsened in the region during the first planting cycle this year, USAID, along with other U.S. Government (USG) agencies, provided assistance to affected families. Since July 2001, USAID has collaborated actively with a cadre of U.S. private voluntary organizations responsible for distributing PL480 Title II development food aid to drought emergency zones. The USG has also been the primary contributor of commodities to the United Nations World Food Program (WFP) to assist drought-affected farmers and unemployed coffee plantation workers in the region.

USAID provided over \$200 million to Central American countries for development assistance, emergency relief, and earthquake reconstruction in FY2001. The U.S. Department of Agriculture (USDA) supplied another \$60 million in food assistance. By May 2002, the USG had contributed nearly \$17 million to short-term emergency drought relief, which mitigated immediate food shortages. Additional assistance is being committed for the medium term through November 2002 in order to alleviate localized food shortfalls after the second harvest, treat malnutrition problems stemming from the drought and the coffee crisis, and prepare for the next planting season. USAID and our U.S. private voluntary organization (PVO) partners have worked in close cooperation with the WFP, UNICEF, and local governments to coordinate all emergency operations.

USAID's Strategic Approach. USAID is addressing hunger for both the long and short term. The distribution of most emergency food aid is through food-for-work projects aimed at improving long-term food security and rehabilitating community infrastructure; however, where warranted, mother-child feeding programs have used free rations to target malnutrition in children under five. In addition to emergency and non-emergency food aid, USG-supported programs have provided seeds and other agricultural inputs to farmers for the second planting season in these affected regions. Food aid assistance will continue into the coming year, as poor households will require help to cope with the effects of the drought and coffee crisis.

Prospects for next year are not promising, as El Niño continues to threaten the region and critical structural changes in the agriculture sector will take several years to implement. USAID plans to provide additional assistance to accelerate changes in the sector and expand economic opportunities through the Opportunity Alliance. This initiative aims to stimulate public and private partnerships throughout Central America and Mexico and create opportunities for agricultural diversification and off-farm employment among the region's poorest inhabitants. An initial program under the Alliance will take a market-based approach to assist small and medium coffee producers to improve coffee quality, form new linkages, secure longer-term contracts with the specialty coffee industry, and identify and implement diversification options for producers that cannot be competitive.

NICARAGUA:

Including diversions from the regular development and food aid programs, the USG has delivered \$8.2 million in emergency assistance to Nicaragua to date. Coordinating its efforts closely with the WFP, USAID provided \$4.2 million of PL 480 Title II food stocks and USDA contributed another \$3.1 million of Section 416b food commodities for distribution starting in August 2001. PVO activities already underway with Title II food were extended and expanded to remote areas of Chinandega, León, Estelí, and Matagalpa. To meet emergency needs, OFDA provided a total of \$475,000 for local purchase of food, seeds, tools, and fertilizer for the second planting season. USAID and USDA made available an additional \$432,000, also for tools and seeds for the second planting. As a result of the USG response, a serious crisis is pre-empted.

However, approximately 20 percent of the second crop harvest was lost and a further 10-15 percent was seriously stressed, greatly lowering yields; the overall area cultivated was also decreased by 17 percent from recent averages. The effects are particularly evident in the traditionally drier areas of north-western and north-central Nicaragua. USAID estimates that food reserves in many households will run out several months prior to the next crop harvest, and the shortage will be most pronounced in June, July, and August. Household incomes have suffered threefold from a combination of lower seasonal employment, smaller harvests, and lower coffee prices. Moreover, many subsistence farmers in the drought prone areas lack resources to purchase production inputs, such as seed materials and fertilizers, for the coming season (May to August). In addition, there is an increased threat of forest fires because of the dry weather and traditional burning practices. Bark beetle infestation is also increasing in the region.

USAID is collaborating with its Title II food aid cooperating sponsors (CSs) to address a portion of the emergency needs for many of the families in drought stricken areas. USAID's CSs will be able to provide emergency food to address these needs under current Title II programs, within the 10 percent authorized for local programming shifts. For FY2002, these programs are valued at \$11 million. In addition, USDA has scheduled \$1.99 million in food assistance through its Food for Progress program. To provide relief to coffee workers, USAID is organizing a food-for-work activity from May to November. The mission is providing \$1.0 million from its FY 2002 development program to pay for in-country food aid administrative support costs (such as personnel, transport and handling, warehousing, and materials). This will permit Title II CSs to manage a food-for work program that could distribute approximately \$3.0 million in food aid. However, only half that amount is currently available, so the program may be reduced to one-half of the requirement. OFDA is providing fire hazard training to the Forestry Department, trying to minimize risk in 11 highly vulnerable municipalities, and has provided \$50,000 for fire management equipment.

USAID is also helping to ensure that Nicaragua is better prepared for next year's coffee season. The Cooperative League of the USA is assisting small coffee farmers to produce and sell high quality beans for the specialty market. The Opportunity Alliance will also target this problem.

USAID, WFP, and Title II CSs continue to monitor the food security situation within the rural areas of Nicaragua. WFP has advised the Mission that it is prepared to program 45,730 MT of food aid over the next five years.

HONDURAS:

The USG has provided \$2.3 million in emergency assistance to Honduras to date. This amount includes transfers of Title II food aid from CARE and WFP regular programs to the drought affected areas, as well as an additional \$1.5 million to the WFP for emergency relief commodities. OFDA provided \$175,000 to purchase and distribute seeds through the Zamorano Agricultural School. In FY 2002, the regular Title II food program is \$5.1 million, with development assistance at \$29.5 million. In addition to these resources, USDA has programmed \$2.6 million in food assistance under its Food for Progress program.

The Government of Honduras (GOH) reports deficits in all major grains and beans. USDA estimates a 22 percent crop loss of basic grains from the first harvest of 2001. The second harvest of the 2001

crop season had about 38 percent less bean and 13 percent less rice production than previous years. Nonetheless, it is difficult to obtain verifiable statistics, and national level figures can mask even more serious difficulties at the local level. The GOH is negotiating a bean purchase on the international market, but lacks funding to finance the corn deficit.

As a result of the coffee crisis, some 200,000 part-time and another 200,000 full-time have lost significant income because fewer jobs are available and they pay lower wages. Many of these "jornaleros" are from the drought region. Lack of resources in the family granary or in the form of cash will lead to lower household food availability, which will have a hard impact on children under five years of age. Seed availability may also be a problem for the first planting cycle.

Donors and the GOH have focused efforts on 30 southeastern municipalities with a population of 320,000. The GOH has created the Multi-sectoral Drought Committee, COMUS (composed of government, NGOs, and donor institutions, such as FAO, USAID, WFP), to coordinate planning and implementation efforts. The GOH plan aims to ensure short-term access to food. Over the medium term, it wants to develop productive infrastructure for management of water, soil, and forest resources. In addition to encouraging food-for-work activities, the GOH would like to establish reserves of corn and seeds for planting. The WFP has begun a food-for-work program in the 30 municipalities, in conjunction with NGOs and various government agencies. It has proposed a two-year program for affected areas to reach about 25-30,000 families, in addition to its regular efforts addressing food security, natural resource management, and education.

USAID is developing longer-term initiatives to improve the response of agricultural producers to climate change and improve food availability throughout the year. This effort includes new seed varieties and improved practices for higher yields, dry season management, and crop diversification. USAID is also working closely with farmers to promote non-traditional agricultural products with adequate irrigation techniques, as well as planning planting cycles to fit better with product demand and allow for crop availability year round. Better water resources management will be another component of the effort.

This work also involves agricultural production programs to target coffee producers and processors, as well as possibilities for agricultural diversification and exports as a longer-term strategy to alleviate the problem of rural poverty. The Opportunity Alliance will be important to achieving this ambitious program. For the shorter term, the mission is considering assessment surveys and seed distribution if the drought continues into yet another agricultural cycle.

EL SALVADOR:

Production figures for the 2001-2002 harvest suggest that there will not be a major shortage of basic grains at the national level. According to the Ministry of Agriculture, the corn harvest will be down 2 percent from the year before; beans are up 10 percent, sorghum is up 1 percent; but rice is down by almost 20 percent. Typically, El Salvador runs a deficit in the production of staples that is compensated by imports.

However, at the local level, especially in the eastern parts of the country where the drought was most severe, the effects are serious. The WFP characterized the localized impact of the drought there as grave, with significant crop losses in both the first and second harvests. Notwithstanding the assistance provided since August 2001, the WFP estimates that as of this March 20,000 families are at risk of food insecurity in this area, suggesting a need for targeted food assistance in the hardest hit zones. An integrated host-country led program continues. It includes foodstuffs distributed via the WFP, a Food-for-Work program providing for economic infrastructure in the areas of rural roads, crop diversification, irrigation, silos, and reservoirs, and a credit program implemented through the country's Banco de Fomento de Agropecuario. USAID contributed \$583,600 of Title II commodities to this effort. For its part, the WFP is delivering food to 12,000 of the neediest families over February-July of this year. Overall, food availability needs to be watched in the eastern zones, but generally speaking there is no immediate national emergency.

The Salvadoran coffee industry is in crisis mode. Last year's crop (2000/2001) was the second

lowest in 30 years, constituting a 37 percent reduction from the year before, and the downward trend is expected to continue for this year's harvest (2001/2002). The country's coffee board, PROCAFE, estimates an 8 percent reduction in this year's crop from last year. Export revenues from this year's harvest are now anticipated at \$95 million, 28 percent lower than last year and 73 percent less than the average of the five years preceding the 2000/2001 harvest. In total, about 63,000 permanent jobs have been lost; this year's harvest generated 92,000 jobs in contrast to 155,000 in a normal year. This translates to losses in rural incomes of about \$55.3 million. The anticipation is that the losses of rural employment will continue for next year's harvest (2002/2003) when but 69,000 jobs are anticipated. Ironically, coffee producers report a scarcity of labor for this year's harvest, owing to a number of factors including (a) 20-34 percent reductions in wages, (b) lower crop production resulting from the absence of proper care of the farms, (c) movement of labor to earthquake reconstruction activities, (d) exodus to the cities to find more remunerative occupations, and (e) relocation of earthquake-affected families to sites farther from coffee farms.

USAID is working to promote non-traditional crops, such as sweet peppers, sesame, organic coffee, and cashews, for which verifiable demand exists in domestic or overseas markets. The program has provided help in marketing, training in improved practices, and technical assistance in farm management techniques to nearly 12,000 producers and used demonstration farms to extend to neighboring areas. The Opportunity Alliance will assist in expanding this effort.

According to the Central Bank, remittances from Salvadorans abroad, primarily in the U.S., reached just over \$1.9 billion in 2001, up more than 9 percent over the year before. Some 256,000 Salvadorans took advantage of the Temporary Protected Status accorded by the United States after the earthquake to remain in the United States. Visa applications dropped drastically after September 11, but are now on the increase again.

GUATEMALA:

Guatemala continues to suffer a crisis of widespread acute child malnutrition, stimulated by the overlapping and exacerbating effects of a drought and drastically reduced employment in the coffee sector. The most recent census information shows that over 30,000 children across 91 municipalities suffer from acute malnutrition. Of these, over 7,000 are severely or moderately wasted. The USAID emergency Title II program will work in 21 of these municipalities to reach 6,838 of these children. Despite 3 or 4 municipal "hot spots" with high concentrations of wasted children, most of these children are widely dispersed in remote rural areas, seriously compounding efforts to identify and treat them.

USAID is responding to this crisis with \$5.8 million in emergency rations, medical supplies, diarrhea and pneumonia treatments, nutrition education, and vaccinations for those children most at risk in rural communities. This total includes \$4.1 million from USAID's child survival and development program in Guatemala. USAID recently announced approval of an additional \$1.2 million in emergency food, medical and nutritional assistance through Catholic Relief Services, CARE, SHARE, and Save the Children. USAID's \$520,200 contribution to the WFP has provided emergency feeding in dozens of affected rural villages. Other donors are also involved in this humanitarian effort. USAID's annual development effort in Guatemala, \$54 million in FY 2001, heavily targets rural poverty and food security.

USAID and its partner organizations support emergency feeding with other closely related health and nutrition programs, such as growth monitoring, community-based maternal and child health care, nutrition education, and vaccinations. USAID funds purchase local foods for twelve hospitals treating severely malnourished children and monitoring their progress carefully. It also supports activities to help reduce the underlying poverty which leads to the acute malnutrition, through such activities as providing education scholarships in affected communities, developing projects for employment generation, and providing inputs to poor farmers for the coming planting season.

Initially concentrated in eastern Guatemala, cases of acute child malnutrition were increasingly observed in the Central and Western Highlands by mid-October 2001. The Government of Guatemala's (GOG) emergency effort includes food aid, health assistance, and employment

generation activities. The plan uses the Ministry of Health's early warning system to detect severely malnourished children and get them into some 38 nutritional recuperation units established for this purpose.

High poverty rates, especially in rural areas, among the indigenous population, and in the Peace Zones have long been a focus of USAID. To revitalize the rural economy, USAID is targeting food-for-work programs, such as road rehabilitation, reforestation, and municipal works, in the most affected communities. Programs help farmers secure access to land, use sustainable agriculture practices, and increase productivity and sales. USAID efforts are also underway to raise Guatemalan competitiveness through business development services, including support for non-traditional agricultural exports and access to specialty coffee markets.

The Opportunity Alliance will provide significant assistance in accelerating the change in Guatemalan agriculture. This effort aims to stimulate public and private partnerships, which will create opportunities for agricultural diversification and off-farm employment among Guatemala's poorest inhabitants. The first steps will likely be in improving the quality of existing coffee producers, developing value-added services and products, and helping those that cannot compete in the new market for coffee to diversify.

MEXICO:

Although it is not affected by drought in its southern states, Mexico does suffer from the regional coffee crisis. Unlike other export crops, some 70 percent of Mexican coffee is produced by small growers. It sustains an estimated 3,000,000 direct and indirect jobs, many of which have been seriously affected by the fall in prices. The Government of Mexico has injected \$200 million into the country's crumbling coffee industry. It is assisting in four areas: training in quality improvements, supporting rural investment to diversify and generate employment alternatives, strengthening rural enterprises, and developing temporary employment programs.

The U.S. Agency for International Development has provided economic and humanitarian assistance worldwide for more than 40 years.
